MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

2011 ANNUAL REPORT

LETTER OF TRANSMITTAL

Regina, Saskatchewan
March 6, 2012

To Her Honour
The Honourable Vaughn C. Schofield
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of the Municipal Financing Corporation of Saskatchewan for the year ended December 31, 2011, in accordance with **The Municipal Financing Corporation Act.** The financial statements included in this Annual Report are in the form approved by the Treasury Board and have been reported on by the Corporation's auditors.

I have the honour to be, Madam,

Your obedient servant,

/s/ Ken Krawetz

Ken Krawetz
Minister of Finance
And Minister Responsible
Municipal Financing Corporation of Saskatchewan

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

BOARD OF DIRECTORS

Honourable Ken Krawetz
Chairperson

Honourable Darryl Hickie

OFFICERS

Rae Haverstock
General Manager

Carla Brown
Assistant General Manager

Jim Fallows
Treasurer

Vanessa Peigan
Acting Secretary

CONTACT INFORMATION

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MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

HISTORY AND CURRENT HIGHLIGHTS – 2011

The Municipal Financing Corporation of Saskatchewan (the Corporation) was established to assist in making capital funds available for the financing of school, hospital and other essential construction and local improvement projects in cities, towns, villages and rural areas throughout the Province. The Corporation may borrow directly from private lending institutions or through the Ministry of Finance. The Corporation uses the funds borrowed to purchase a portion of the approved debentures sold each year by Saskatchewan local governments.

The Corporation participated in the financing of 21 projects by purchasing $34.7 million of debentures. Most of the debentures financed sewer and water projects or road improvement projects.

The Corporation's debenture holdings at December 31, 2011 totaled $141.1 million, up $30.4 million from the total at December 31, 2010.

The Corporation recorded net earnings of $1.5 million in 2011, which exceeds the surplus of $1.4 million recorded in 2010 and the $1.2 million amount budgeted (see note 9 to the financial statements). The increase in net earnings is attributable to growth in the size of the Corporation's loan portfolio and higher than anticipated earnings on sinking fund investments.

For 2012, the Corporation expects net earnings to be slightly lower than the amount recorded in 2011 due to lower earnings on sinking fund investments.

The Municipal Financing Corporation of Saskatchewan is administered by a Board of Directors through the use of staff and facilities provided by the Ministry of Finance. The Corporation incurred $26,000 of administrative expenses in 2011. These expenses were primarily for audit fees and the reimbursement of the costs to the Ministry of Finance of providing administrative services. The Directors of the Municipal Financing Corporation of Saskatchewan do not receive fees and, with the exception of interest paid on borrowed funds, the Corporation had no other expenses in the current year.

A table showing results of operations for 2011, as compared to the previous year, as well as a detailed listing of debentures purchased in the current year is presented on page 4.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

COMPARATIVE TABLE OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31

	2011	2010
	(thousands of Canadian dollars)	
Amount of debentures offered to the Corporation	$ 40,347	$ 4,976
Purchases completed	34,723	4,976
Purchase commitments outstanding at the year end	$ 5,624	$ 0

DEBENTURES PURCHASED IN 2011
(thousands of Canadian dollars)

City of Martensville	$ 543
City of Melfort	1,594
City of Weyburn	5,000
Town of Dundurn	1,670
Town of Dundurn	250
Town of Gull Lake	872
Town of Luseland	1,255
Town of Rocanville	350
Town of Waldhiem	200
Town of Watson	750
Town of Yellow Grass	500
Resort Village of Etter's Beach	47
Resort Village of Manitou Beach	800
Resort Village of Mistusinne	114
Village of Chaplin	452
Village of Maryfield	1,823
Village of Meota	151
Village of Meunster	435
Village of Smeaton	393
RM of Heart's Hill No. 352	9,524
RM of Progress No. 351	8,000
	$ 34,723

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management has prepared the financial statements of the Municipal Financing Corporation of Saskatchewan in accordance with International Financial Reporting Standards on a basis consistent with that of the previous year. Management is responsible for the reliability and integrity of the financial statements and all other information contained in this Annual Report.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfill this responsibility, management maintains appropriate systems of internal controls, policies and procedures to provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Corporation.

Dudley and Company LLP, the Corporation's external auditors, have reviewed the systems of internal control and audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express their opinion on the financial statements. Their report appears on the following page.

The financial statements have been examined and approved by the Board of Directors.

/s/ Rae Haverstock

Rae Haverstock
General Manager

/s/ Jim Fallows

Jim Fallows, CA
Treasurer

March 6, 2012

INDEPENDENT AUDITOR'S REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the accompanying financial statements of the **MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN** (the Entity) which comprise the statement of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN** as at December 31, 2011, December 31, 2010 and January 1, 2010, and the results of its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

/s/ Dudley & Company

Dudley & Company
Chartered Accountants LLP

Regina, Saskatchewan
March 6, 2012

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF FINANCIAL POSITION
As at

	Dec. 31 2011	Dec. 31 2010	Jan. 1 2010
	(thousands of Canadian dollars)		
ASSETS			
Current assets			
Due from General Revenue Fund (Note 3)	$ 0	$ 1	$ 85
Interest receivable	2,146	1,395	1,365
Municipal debentures receivable within one year	6,914	4,395	4,068
	9,060	5,791	5,518
Investments in municipal debentures (Note 4)	134,173	106,314	105,732
	$ 143,233	$ 112,105	$ 111,250
LIABILITIES AND PROVINCE'S EQUITY			
Current liabilities			
Interest payable and accrued liabilities	$ 1,134	$ 588	$ 489
Debt payable within one year (Note 5)	3,307	5,288	15,645
	4,441	5,876	16,134
Long term debt (Note 5)	120,800	89,721	79,967
Province of Saskatchewan's Equity			
Reinvested earnings	17,992	16,508	15,149
	$ 143,233	$ 112,105	$ 111,250

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended December 31

	2011	2010
	(thousands of Canadian dollars)	
Revenue		
Investment income - municipal debentures	$ 5,245	$ 4,661
Investment income - debt retirement funds and cash balances	212	102
	5,457	4,763
Expenses		
Interest on debt	3,947	3,379
Administration	26	25
	3,973	3,404
Comprehensive Income	$ 1,484	$ 1,359

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF CHANGES IN EQUITY

For the Year Ended December 31

	Reinvested Earnings
	(thousands of Canadian dollars)
Balance, January 1, 2010	$ 15,149
Comprehensive Income for 2010	1,359
Balance, December 31, 2010	$ 16,508
Comprehensive Income for 2011	1,484
Balance, December 31, 2011	$ 17,992

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF CASH FLOWS

For the Year Ended December 31

	2011	2010
	(thousands of Canadian dollars)	
Operating Activities		
Interest received from municipal debentures	$ 4,622	$ 4,641
Interest received from short term investments	12	1
Interest paid on debt	(3,695)	(3,278)
Payments to suppliers	(25)	(25)
Cash provided by operating activities	914	1,339
Investing Activities		
Purchase of municipal debentures	(34,476)	(4,976)
Proceeds from maturing municipal debentures	4,274	4,068
Cash used in investing activities	(30,202)	(908)
Financing Activities		
Repayment of short term debt	(1,981)	(10,357)
Issuance of long term debt	31,600	10,174
Repayment of long term debt	(332)	(332)
Cash provided by (used in) financing activities	29,287	(515)
Net (decrease) in cash equivalents during the year	(1)	(84)
Cash equivalents, beginning of year	1	85
Cash equivalents, end of year	$ 0	$ 1

Cash equivalents are represented by amounts due from the General Revenue Fund

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. Status of the Corporation

The Municipal Financing Corporation of Saskatchewan is a Canadian company that was established in 1969 pursuant to the provisions of **The Municipal Financing Corporation Act**. The Corporation's objective is to assist municipalities in financing their capital requirements.

The Corporation is a Crown corporation of the Government of Saskatchewan and is therefore not subject to Federal or Provincial income tax but is subject to Provincial corporation capital tax.

The Corporation is administered by the Ministry of Finance at 2350 Albert Street, Regina, Saskatchewan.

2. Significant Accounting Policies

Statement of Compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations as issued by the International Accounting Standards Board effective as of December 31, 2011.

These financial statements were authorized for issue by the Board of Directors on March 6, 2012.

Basis of Measurement

These financial statements have been prepared on a historical cost basis except for debt retirement funds, which have been measured at fair value.

Adoption of International Financial Reporting Standards

The Corporation transitioned to IFRS on January 1, 2010, so this is the Corporation's first set of financial statements prepared on this basis.

On transition, IFRS provides a number of mandatory exceptions to and authorizes certain optional exemptions from full retrospective application of IFRS. None of these exceptions were applicable to the Corporation, and the Corporation did not elect to utilize any of the available exemptions.

The transition did not result in any material changes to the Corporation's financial position, financial performance or cash flows, so no reconciliations between the previously used generally accepted accounting principles and IFRS have been prepared.

Financial Instruments

The Corporation has implemented the following classifications:

- Due from the General Revenue Fund and Interest receivable are classified as "loans and receivables." After initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Corporation, the measured amounts generally approximate their cost.
- Municipal debentures receivable within one year and investments in municipal debentures are classified as "held to maturity investments." After initial fair value measurement, they are measured at amortized cost using the effective interest rate method.
- Debt retirement funds are classified as "financial assets at fair value through profit and loss," because they are actively traded. Thus, they are marked to market through net earnings and comprehensive income at each period end.
- Interest payable and accrued liabilities, debt payable within one year and long term debt payable are classified as "financial liabilities." After initial fair value measurement, they are measured at

amortized cost using the effective interest rate method.

New Accounting Standards Not Yet Adopted

These financial statements exclude a number of accounting standards that are not effective until annual periods beginning after January 1, 2012. The impact of these standards of the Corporation is not known at this time.

3. Due from General Revenue Fund

The Corporation's bank account is included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

The Corporation's earned interest is calculated and paid quarterly by the General Revenue Fund to the Corporation using the General Revenue Fund's thirty day borrowing rate and the Corporation's average daily bank account balance.

4. Investments in Municipal Debentures

The Corporation invests in fixed rate debentures issued by cities, towns, villages, rural municipalities and school divisions throughout the Province of Saskatchewan. Debentures purchased by the Corporation must be approved by the Saskatchewan Municipal Board, where applicable.

The Corporation has an investment in 125 (December 31, 2010 – 107, January 1, 2010 - 105) debentures issued by 84 (December 31, 2010 – 74, January 1, 2010 - 72) issuers with a weighted average yield of 4.09% (December 31, 2010 – 4.19%, January 1, 2010 – 4.23%) and maturity dates ranging from 2012 through 2031.

The carrying amount invested by issuer category is as follows:

	Dec. 31 2011	Dec. 31 2010	Jan. 1 2010
	(thousands of Canadian dollars)		
Cities	$ 75,379	$ 69,021	$ 69,749
Towns	30,583	27,305	25,701
Villages	10,026	6,451	6,079
Rural Municipalities	18,354	892	951
School Divisions	6,745	7,040	7,320
	141,087	110,709	109,800
Receivable within one year	6,914	4,395	4,068
	$ 134,173	$ 106,314	$ 105,732

The fair value of these debentures is $156.6 million (December 31, 2010 - $116.9 million, January 1, 2010 - $116.7 million). This fair value is determined by discounting the debentures' future cash flows using investment rates presently available to the Corporation for investments with similar terms and remaining maturity. Prepayment rates and credit losses are assumed to be zero, based on the past experience of the Corporation. A one per cent change in the investment rates noted above would change the fair value of these debentures by approximately $6.4 million. The Corporation measures its investments in municipal debentures at amortized cost using the effective interest method, so a change in the fair value of these securities would have no immediate effect on net earnings.

The Corporation's policy is to permit borrowers to redeem debentures prior to maturity. Effective March 2009, the redemption price is set at the fair market value of the debenture. Prior to March 2009, the redemption price was set at the face value of the debenture plus 50% of the difference between the face value of the debenture and its fair market value. During 2011 and 2010, no debentures were redeemed.

At December 31, 2011, the Corporation had committed to purchase $5.7 million (2010 - $0) of debentures. These debentures were purchased subsequent to the year end.

5. Debt

General Revenue Fund (GRF)

	Dec. 31, 2011		Dec. 31, 2010		Jan. 1, 2010	
	Principal Outstanding	Average Interest Rate	Principal Outstanding	Average Interest Rate	Principal Outstanding	Average Interest Rate
	(thousands of Canadian dollars)					
1-5 Years	$ 78,074	3.21%	$ 68,074	3.34%	$ 52,900	3.33%
6-10 Years	25,400	3.65%	9,800	4.65%	14,800	4.51%
11-15 Years	17,230	4.58%	3,900	4.81%	3,900	4.81%
16-20 Years	2,200	4.60%	9,530	4.80%	9,530	4.80%
	122,904		91,304		81,130	
Less: Unamortized Deferred financing charges	(31)		(42)		(53)	
Less: Debt retirement funds	(2,084)		(1,552)		(1,121)	
	120,789		89,710		79,956	
Less: Current Portion of Long Term Debt	11		11		11	
Long term debt	$ 120,800		$ 89,721		$ 79,967	

The fair value of long term debt is $133.4 million (December 31, 2010 - $95.5 million, January 1, 2010 - $85.3 million). This amount is determined by discounting the debentures' future cash flows using borrowing rates presently available to the Corporation for debt with similar terms and remaining maturity. A one per cent change in the borrowing rates noted above would change the fair value of long term debt by approximately $5.6 million. The Corporation measures its long term debt at amortized cost using the effective interest method, so a change in the fair value of long term debt would have no immediate effect on net earnings.

Debt retirement funds are reported at their fair value.

a) short term debt

The Corporation is authorized to borrow up to $80.0 million on a short term basis from the GRF. At December 31, 2011, an amount of $3.3 million (December 31, 2010 - $5.3 million, January 1, 2010 - $15.7 million) was due to GRF at an interest rate of 1.20% (December 31, 2010 – 1.13%, January 1, 2010 – 0.36%).

b) principal repayments

Principal repayments for the next five years are as follows:

(in thousands of Canadian dollars)	2012	2013	2014	2015	2016
	$ 0	$ 9,800	$ 43,100	$ 15,174	$ 10,000

c) Debt Retirement Funds

Under conditions attached to certain advances from the Government of Saskatchewan's General Revenue Fund, the Corporation is required to pay annually into debt retirement funds administered by the Government of Saskatchewan Ministry of Finance, amounts at least equal to 1% of certain debt outstanding. As at December 31, 2011, scheduled debt retirement fund instalments for the next five years are as follows:

(in thousands of Canadian dollars)	2012	2013	2014	2015	2016
Debt retirement fund annual contribution	$ 392	$ 392	$ 342	$ 342	$ 292

A reconciliation between the opening and closing debt retirement funds balance is provided below:

(in thousands of Canadian dollars)	Dec. 31 2011	Dec. 31 2010	Jan. 1 2010
Debt retirement funds, beginning of year	$ 1,552	$ 1,121	$ 755
Debt retirement fund instalments	332	332	332
Debt retirement fund earnings	138	55	14
	2,022	1,508	1,101
Unrealized debt retirement fund market value gains (losses)	62	44	20
Debt retirement funds, end of year	$ 2,084	$ 1,552	$ 1,121

6. Related Party Transactions

The Corporation is controlled by the Government of Saskatchewan.

These financial statements include the results of transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan. Significant outstanding balances and transactions are as follows:

	2011	2010
	(thousands of Canadian dollars)	
Balances		
Interest receivable	$ 191	$ 198
Municipal debentures receivable within one year	310	295
Investments in municipal debentures	6,435	6,745
Interest payable and accrued liabilities	880	583
Debt payable within one year	3,307	5,288
Long term debt payable	120,800	89,721
Transactions		
Investment income - municipal debentures	$ 352	$ 367
Investment income - debt retirement funds and cash balances	212	102
Interest on debt	3,947	3,379
Administration	20	20

7. Financial Instruments

Management of Financial Risks

The activities of the Corporation result in exposure to three types of risk:

i) Interest Rate Risk

Interest rate risk is risk that the value of the Corporation's assets and liabilities will fluctuate due to changes in market interest rates. This risk exists because the maturity dates of the Corporation's assets and liabilities are not precisely matched:

Year of Maturity	Financial Assets	Financial Liabilities	Difference 2011	Difference 2010
		(thousands of Canadian dollars)		
2011	$ -	$ -	$ -	$ (96)
2012	9,060	4,441	4,619	-
2 - 5 years	92,888	77,077	15,811	14,175
Thereafter	41,285	43,723	(2,438)	2,429
	$ 143,233	$ 125,241	$ 17,992	$ 16,508

The Corporation manages this risk by matching the maturity dates of material assets and liabilities to the extent possible.

ii) Liquidity Risk

Liquidity risk is the risk that financial obligations will not be met over the short-term due to lack of access to capital. This risk is managed by distributing debt maturities over many years, maintaining sinking funds on long-term debt issues and maintaining adequate cash reserves and an $80 million short-term line of credit with the General Revenue Fund.

iii) Credit Risk

Credit risk is the risk that the Corporation will not receive payment in full for its investments in municipal debentures or its debt retirement funds.

For municipal debentures, this risk is managed by legislative restrictions on the amounts that can be borrowed by local governments and scrutiny of all proposed transactions. Few of the Corporation's municipal debentures have a credit rating, however all are considered secure. At December 31, 2011, the Corporation had a maximum exposure of $141.1 million (2010 - $110.7 million) on its investments in municipal debentures.

For debt retirement funds, this risk is managed by holding a diversified portfolio of investment grade fixed income securities. The investment guidelines applicable to the debt retirement funds prohibit the acquisition of non-investment grade securities. At December 31, 2011, the Corporation had a maximum exposure of $2.1 million (2010 - $1.6 million) on its debt retirement fund investments.

The Corporation has never experienced a credit-related loss.

Fair Value Information Regarding Financial Instruments

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The Corporation has classified the fair valuation of its financial instruments as level 1, 2 or 3 as defined below.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Corporation's debt retirement investments have been grouped into Level 2 of the fair value hierarchy. These investments are valued by the Ministry of Finance using information provided by investment dealers. To the extent possible, valuations reflect indicative secondary pricing for these securities. In all other circumstances, valuations are determined with reference to similar actively traded instruments.

Other Information Regarding Financial Instruments

The effective interest rates on the Corporation's interest bearing financial instruments are as follows:

Investments in municipal debentures	4.09%
Short term debt	1.20%
Long term debt	3.52%

The Corporation's financial instruments have the following carrying amounts:

	Dec. 31 2011	Dec. 31 2010	Jan. 1 2010
Financial assets at fair value through profit or loss (all classified as held for trading)	$ 2,084	$ 1,552	$ 1,121
Held to maturity investments	141,087	110,709	109,800
Loans and receivables	2,146	1,396	1,450
Financial liabilities measured at amortized cost	(127,356)	(97,191)	(97,275)
Net carrying value of financial instruments	$ 17,961	$ 16,466	$ 15,096

The Corporation incurred gains of $62 (2010 – $44) on its financial instruments that are measured at fair value through profit and loss.

Total interest income on financial assets not held for trading was $5,245 (2010 - $4,661).
Total interest expense on financial liabilities not held for trading was $3,947 (2010 - $3,379).

The Corporation had no fee income or expenses arising from financial instruments not held for trading.

The Corporation had no impaired financial instruments, so no interest income or losses were incurred from such assets.

8. Capital Management

The Corporation defines its capital as its reinvested earnings and its long term debt payable.

The Corporation strives to ensure that the interest rate on its investment in municipal debentures exceeds the effective interest rate on its long term debt. The Corporation also attempts to match the payments required to service its long term debt to the cash flows expected from its investments.

The Corporation is not subject to any external or statutory capital requirements.

The points noted above have not changed from the previous fiscal year.

Information on the specific management of financial risks is included in Note 7.

9. Operations Budget

	Budget 2011
	(thousands of Canadian dollars)
Revenue	
Investment income - municipal debentures	$ 4,875
Investment income - short term investments and cash balances	50
	4,925
Expenses	
Interest on debt	3,675
Administration - Ministry of Finance	20
- audit	5
	3,700
Surplus and comprehensive income	$ 1,225